

Message Text

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PAGE 01 ALGIER 00665 141249Z
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SUBJECT: ALGERIA AS MARKET FOR US GOODS: UPDATE

REF: 76 ALGIERS 1433

1. SUMMARY: IN TEN MONTHS WHICH HAVE ELAPSED SINCE DRAFTING OF REFTEL, MANY OF ITS OBSERVATIONS AND PREDICTIONS HAVE PROVEN ACCURATE; NEVERTHELESS, EMBASSY BELIEVES IT NECESSARY TO MODIFY ESSENTIALLY NEGATIVE MESSAGE IT CONVEYED. US EXPORTS REMAIN RESPECTABLE AND CONTRACTS CONTINUE TO BE SIGNED. WHILE DOING BUSINESS IN ALGERIA REQUIRES PATIENCE, PERSEVERANCE, EXPERIENCE AND COMMITMENT, AND COMMERCIAL PAYMENT PROBLEMS REMAIN, THERE IS BUSINESS TO BE DONE AND MONEY TO BE MADE. END SUMMARY.

2. TEN MONTHS HAVE ELAPSED SINCE DRAFTING OF REFTEL. IN THAT TIME MANY, BUT NOT ALL, OF ITS OBSERVATIONS AND PREDICTIONS HAVE PROVEN ACCURATE. US EXPORTS IN 1976 FELL TO \$487 MILLION FROM \$631 MILLION IN 1975 AND NEGOTIATIONS OVER SEVERAL CONTRACTS HAVE STRETCHED OUT FOR MONTHS BEYOND NORMAL TIME PERIODS.

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PAGE 02 ALGIER 00665 141249Z

3. NEVERTHELESS, EMBASSY BELIEVES IT NECESSARY TO MODIFY ESSENTIALLY NEGATIVE MESSAGE CONVEYED REFTEL. WHILE GROWTH OF US EXPORTS TO ALGERIA HAS FALTERED, \$487 MILLION IS RESPECTABLE FIGURE. WHILE CONTRACT NEGOTIATIONS HAVE BEEN LENGTHENED OUT, CONTRACTS CONTINUE TO BE SIGNED AND MORE WILL BE SIGNED. WHILE COMMERCIAL

PAYMENT PROBLEMS CONTINUE TO BE AN IRRITANT, THEY ARE PART OF DOING BUSINESS IN ALGIERS AND ONCE FACTORED INTO COMPANIES' PLANNING NEED NOT DETER EXPERIENCED COMPANIES.

4. EXAMINATION OF 1976 EXPORT FIGURES SHOWS THAT \$110 MILLION WORTH OF DROP IN US EXPORTS ACCOUNTED FOR BY REDUCED SALES OF FOOD AND LIVE ANIMALS. NEARLY ALL OF AGRICULTURAL DECLINE ACCOUNTED FOR BY LARGE DROP IN WHEAT EXPORTS RESULTING FROM ALGERIA'S EXCEPTIONALLY GOOD HARVEST LAST YEAR. EMBASSY BELIEVES AGRICULTURAL EXPORTS TO ALGERIA MAY NOT IMPROVE SIGNIFICANTLY IN 1977; WE DO, HOWEVER, SEE POSSIBILITY OF GROWTH IN US EXPORTS OF MACHINERY AND MANUFACTURED GOODS AS MAJOR PROJECTS, ESPECIALLY IN HYDROCARBON AREA, PICK UP STEAM. ALGERIA'S FOREIGN EXCHANGE AVAILABILITY PROBABLY WILL BE SUFFICIENT IN 1977 TO MAINTAIN EXPORTS OF GOODS AND SERVICES AT OR SLIGHTLY ABOVE 1976 LEVELS. AS INDICATED REFTEL, HOWEVER, LARGEST GROWTH IN EXPORTS OF MACHINERY AND MANUFACTURED GOODS WILL ACCRUE TO THOSE COUNTRIES MOST WILLING PROVIDE EXPORT CREDITS.

5. IT BECOMING APPARENT THAT SO-CALLED DEVELOPMENT SLOW-DOWN WILL NOT RPT NOT TAKE PLACE USING WESTERN CONCEPTS OF PRIORITIES, COST/BENEFIT ANALYSES AND OUTRIGHT PROJECT CANCELLATIONS. INSTEAD, PROCRASTINATION, ACCOMMODATION, COMPROMISE AND IMPULSE WILL PREVAIL. WITH CERTAIN MINOR EXCEPTIONS, PROJECTS ARE NOT RPT NOT BECING CANCELLED; THEY ARE BEING STRETCHED OUT OR MODIFIED. ONE STANDARD METHOD OF STRETCHING OOUT PROJECT IS TO PROLONG NEGOTIATIONS FOR PRELIMINARY PRE-QUALIFICATION OR FEASIBILITY LIMITED OFFICIAL USE

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PAGE 03 ALGIER 00665 141249Z

STUDIES, THEN SIGN RELATIVELY CHEAP INITIAL STUDIES CONTRACTS WITH MORE THAN ADEQUATE DEADLINES FOR COMPLETION.

6. TO DEMONSTRATE THIS TECHNIQUE WE CITE RECENTLY SIGNED CONTRACTS FOR FEASIBILITY STUDIES FOR URANIUM AT TIMGAOUINE AND FOR IRON ORE AT GAR AL-JABILET. AFTER SEVERAL MONTHS DELAY, "LONG LISTS" OF PREQUALIFIED FIRMS WERE PREPARED, AND FIRMS ON THOSE LISTS WEREINVITED TO SUBMIT ADDITIONAL INFORMATION TO BE USED IN SELECTING "SHORT LISTS". AFTER SELECTION OF "SHORT LISTS" THOSE FIRMS WERE ASKED BID ON FIRST PHASE ONLY (OUT OF TOTAL FOUR PHASES FOR URANIUM PROJECT AND FIVE PHASES FOR IRON ORE PROJECT). AT THAT POINT IDENTICAL CONTRACTS WERE SIGNED FOR FOUR FIRMS FOR EACH PROJECT (INCLUDING TWOUS FIRMS FOR URANIUM PROJECT AND EITHER ONE OR TWO US FIRMS FOR IRON ORE PROJECT). AT CONCLUSION PHASE I ALL FOUR SUBMISSIONS WILL BE "STUDIED AND ANALYZED", AND TWO OR THREE FIRMS PICKED TO DO PHASE II. SAME PROCESS WILL BE REPEATED, AND FIELD WILL BE NARROWED TO ONE FIRM TO COMPLETE EACH PROJECT.

THUS PROJECTS WILL BE STRETCHED OUT OVER SEVERAL YEARS.

7. POINT IS THAT THEY ARE CONTINUING, AND CONTRACTS, HOWEVER SMALL, ARE BEING SIGNED. WE EMPHASIZE THAT ONE CANNOT SAFELY PREDICT WHICH PROJECTS WILL GO FORWARD AND WHICH ONES WILL BE DELAYED. ONE CANNOT TRY TO PREDICT RESULTS USING ESTIMATES OF COST/BENEFIT RATIOS AND OTHER WESTERN CONCEPTS; GOA DECISIONS BEING MADE BASED ALSO ON SOCIAL AND POLITICAL FACTORS AS WELL AS PLAIN WHIM AND IMPULSE.

8. COMMERCIAL PAYMENTS PROBLEMS CONTINUE AND APPEAR TO BE PERMANENT PART OF ALGERIAN SCENE. WE CONTINUE TO HEAR LOUD COMPLAINING OVER PAYMENTS DELAYS, BUT WE ARE RECEIVING FEWER FORMAL COMPLAINTS. NORMAL PAYMENT DELAYS SEEM TO BE RUNNING SIX TO TEN WEEKS, WITH MAXIMUM BEING SIX TO EIGHT MONTHS. IT IMPORTANT THAT US FIRMS CONSIDERING DOING BUSINESS IN ALGERIA BE AWARE OF THIS PROBLEM SO THAT IT LIMITED OFFICIAL USE

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PAGE 04 ALGIER 00665 141249Z

CAN BE TAKEN INTO ACCOUNT IN MAKING CORPORATE DECISION AND SO THAT PROPER STAFFING WILL BE PROVIDED AND OTHER PRECAUTIONS CAN BE TAKEN, BUT COMMERCIAL PAYMENT PROBLEM IN ITSELF SHOULD NOT BE DETERRENT TO DOING BUSINESS IN ALGERIA. (WE NOTICE MANY FIRMS WHICH PREVIOUSLY HAD SERIOUS PAYMENT PROBLEMS IN ALGERIA STILL INCLUDE ALGERIA IN THEIR ROUNDS SEEKING NEW BUSINESS.)

9. EMBASSY CONCLUDES THAT ALGERIA REMAINS GOOD MARKET FOR SALE OF US GOODS AND SERVICES. IT IS NOT, HOWEVER, AN EASY MARKET. US FIRMS SEEKING TO DO BUSINESS IN ALGERIA FOR FIRST TIME MUST BE ADEQUATELY BRIEFED AND MUST HAE EXPERIENCE AND RESOURCES TO HANDLE PITFALLS THEY WILL ENCOUNTER. IN SHORT, WHILE DOING BUSINESS IN ALGERIA REQUIRES PATIENCE, PERSERVERENCE AND COMMENT, THERE IS BUSINESS TO BE DONE AND MONEY TO BE MADE.LYNE

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